



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 19, 2007

Mr. James A. Yates, Warden
Pleasant Valley State Prison
P.O. Box 8500
Coalinga, CA 93210

Dear Mr. Yates:

Final Report: Pleasant Valley State Prison—Internal Control Review

Enclosed is our final internal control report on the Pleasant Valley State Prison (Institution) as of February 8, 2007. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review to meet the Institution's requirements for the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq.

The findings in our report are intended to assist the Institution management in focusing attention on areas of risk, strengthening internal control, and improving operations. The Institution agreed with our findings and we appreciate the Institution's willingness to implement corrective action.

As required by the Financial Integrity and State Manager's Accountability Act of 1983, Government Code 13400, et. seq., please provide us with a corrective action plan within 30 days from the date of this letter. In addition, an updated corrective action plan every six months is required until all of the recommendations are implemented. Mail your corrective action plan to:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

We appreciate the assistance and cooperation of Institution staff and management during our review. In accordance with Finance's policy of increased transparency, the report will be placed on our website. If you have any questions, please contact Kimberly Tarvin, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. James E. Tilton, Secretary, California Department of Corrections and Rehabilitation
Ms. Heidi Lackner, Director, Division of Support Services, California Department of
Corrections and Rehabilitation
Mr. Scott Carney, Deputy Director, Fiscal Accounting Services, California Department of
Corrections and Rehabilitation
Mr. Timothy Gilpin, Associate Director, Accounting Services, California Department of
Corrections and Rehabilitation
Ms. Kim Holt, External Audits Manager, Office of Audits and Compliance, California
Department of Corrections and Rehabilitation
Ms. Gayle Fifield, Administrator III, Regional Accounting Office, Northern Region,
California Department of Corrections and Rehabilitation
Mr. Jaime Corvera, Administrator II, Central Coast Regional Accounting Office, California
Department of Corrections and Rehabilitation

AN INTERNAL CONTROL REVIEW

Pleasant Valley State Prison

Prepared By:
Office of State Audits and Evaluations
Department of Finance

TABLE OF CONTENTS

Preface	iii
Executive Summary	v
Auditor's Report	1
Findings and Recommendations.....	3
Institution Response	8

The California Department of Corrections and Rehabilitation (Department) operates all state adult prisons and juvenile facilities, oversees a variety of community correctional facilities, and supervises all adult and juvenile parolees during their reentry into society. The Department's adult program includes 33 institutions which span the state from Pelican Bay State Prison in the northwest corner of California to Centinela State Prison near the United States/Mexico border.

The Department's Sacramento Headquarters and eight regional accounting offices perform the fiscal administrative functions related to the adult institutions. Many of these accounting and administrative functions are consolidated within the regional accounting offices. However, some functions, such as inmate trust and stores accounting, are performed at the Institutions. The Department's fiscal administrative structure enhances its ability to provide effective fiscal management through centralization of Institutions' accounting records, application of consistent accounting procedures, monitoring of fiscal activity, and retention of trained and qualified staff.

The Pleasant Valley State Prison (Institution) is served by the Central Coast Regional Accounting Office (RAO). An internal control review of the Institution was performed in conjunction with a review of the RAO. Separate reports are being issued for the RAO and the Institution. The findings in this report pertain to the Institution's controls over the processing and preparation of Institution transactions and financial statements.

State managers are required to maintain internal control over the programs they administer. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. This definition of internal control includes five interrelated components:

- *Control environment* sets the tone of an organization and influences the control consciousness of its staff. It is the foundation for all other components of internal control and provides discipline and structure.
- *Risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives and forms a basis for determining how risk should be managed.
- *Control activities* are the policies and procedures that help ensure management directives are carried out.
- *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- *Monitoring* is the process that assesses the quality of internal control performance over time.

The objective of the internal control review was to assist the Department in complying with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400, et seq. Specifically, the Department of Finance, Office of State Audits and Evaluations, assisted the Department in determining whether the Institution's: (1) assets are safeguarded from unauthorized use or disposition, (2) financial transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of reliable financial statements, and (3) financial operations are conducted in accordance with State Administrative Manual guidelines, certain other state laws and regulations, and the Institution's and Department's policies and procedures.

The review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

STAFF:

Kimberly Tarvin, CPA
Manager

Rich Hebert
Brandon Nunes
Supervisors

Randy McClendon
Lisa Negri
Cindie Lor
Mary Tesema

EXECUTIVE SUMMARY

The review of the Pleasant Valley State Prison's (Institution) internal control indicated that controls were in place and working as intended for cash receipts, purchasing, receivables, and personnel and payroll. Specifically, cash receipts are correctly recorded and deposited intact, purchases are properly authorized and made in accordance with state policies, and receivables are established for amounts due. Additionally, controls over the personnel and payroll functions are sufficient to ensure the reliability and integrity of payroll data. However, controls could be improved to reduce the risk of errors, irregularities, and material misstatements in the areas of: institutional stores, property, disbursements, inmate trust fund, and revolving fund.

The findings in this report are based on fieldwork performed between November 14, 2006 and February 8, 2007. The findings and observations were presented to the related units and Institution management throughout the fieldwork and at the exit conference held February 8, 2007.

This review was limited to the Institution's accounting and administrative functions and did not include the accounting and administrative functions performed at the Central Coast Regional Accounting Office (RAO) or the Department of Corrections and Rehabilitation Headquarters (Headquarters). Specifically, information technology, budget, and financial reporting activities were not reviewed and the contracts cycle review was limited. The RAO is primarily responsible for the Institution's financial reports and information technology processing for fiscal and accounting functions processed by the California State Accounting Reporting System (CALSTARS). In addition, the RAO and Headquarters process all budget transactions and contracts with a value of \$5,000 or higher for the Institution. Furthermore, the review did not include an evaluation of the efficiency or effectiveness of the Institution's operations, or the accomplishment of program goals or objectives.

Reportable Conditions

Institutional Stores: The Institution's controls over the pharmacy do not ensure proper accountability. Specifically, the pharmacy does not maintain a perpetual inventory system to control the receipt and issuance of pharmaceuticals. Additionally, some Storeroom Supply Orders were improperly approved. Furthermore, some supplies reported as issued in the State Logistics and Materials Management System were not supported by a Storeroom Supply Order.

Property: The Institution does not maintain adequate control and accountability for property. Specifically, 3 of 7 disposed fixed assets reviewed were not removed from the property inventory system, and 2 were not removed from the General Ledger Fixed Asset Account Group. Furthermore, the completion of the 2004 physical inventory could not be confirmed because 7 of 17 (41 percent) of the inventory certifications could not be located.

Disbursements: The Institution's controls over disbursements could be compromised because of inadequate separation of duties. Specifically, the accounting technician prepares the checks,

has access to the blank check stock, inputs checks into the accounting system, and prepares bank reconciliations. Additionally, the supervisor has access to the blank check stock and manually signs checks.

Inmate Trust Fund: The Institution's controls over the inmate trust fund do not ensure collection and could increase the state's liability. Negative balances for inmate trust fund accounts are not adequately monitored. Additionally, the Inmate Trust Account bank reconciliations were not performed timely and stop-payment orders were not issued for 459 outstanding checks over one year old.

Revolving Fund: The Institution's controls over petty cash are weak. The transfer of the petty cash fund is not documented and a \$200 petty cash fund is missing \$93, with no receipts to support the missing cash.

For further analysis of these weaknesses, see the *Findings and Recommendations* section of this report. This report is intended to assist the Institution management in focusing attention on areas of risk and in strengthening internal control and improving operations.

AUDITOR'S REPORT

Mr. James A Yates, Warden
Pleasant Valley State Prison
P.O. Box 8500
Coalinga, CA 93210

The Department of Finance, Office of State Audits and Evaluations, reviewed the internal control of the Pleasant Valley State Prison (Institution) as of February 8, 2007, for conformity with Government Code Section 13400, et seq. The review included gaining an understanding of internal control through observations and interviews, evaluating the design and operating effectiveness of the internal control, and performing other procedures deemed necessary.

The Institution's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13400, et seq., includes documenting internal control, communicating requirements to employees, and assuring that the internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control are to provide reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Based on the review of the Institution's internal control as of February 8, 2007, certain matters were noted involving the Institution's internal control and its operation that are considered to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the Institution's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition that precludes the Institution's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. We believe that none of the reportable conditions is a material weakness. The reportable conditions are described in the *Findings and Recommendations* section of this report.

This report is intended for the information and use of Institution and Department management. It is not intended to be and should not be used by anyone other than the designated parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations
(916) 322-2985

February 8, 2007

FINDINGS AND RECOMMENDATIONS

The review of the Pleasant Valley State Prison's (Institution) accounting and administrative controls in effect as of February 8, 2007, indicates that many controls were functioning as intended. Specifically, no reportable conditions were identified for the cash receipts, accounts receivable, purchasing, and personnel and payroll activities. However, some controls were not operating as intended, and corrective action is needed to safeguard assets from loss. If left uncorrected, these weaknesses could increase the risk that material errors and irregularities could occur and remain undetected.

Institutional Stores

Effective internal control over institutional stores is necessary to ensure that inventory is properly accounted for and adequately safeguarded. The following internal control weaknesses over institutional stores were identified.

FINDING 1 Lack of Pharmaceutical Inventory System

Condition: The pharmacy does not maintain an inventory showing the receipt, issuance, or availability of pharmaceutical items. Total pharmaceutical expenditures for fiscal year 2005-06 exceeded \$4.5 million.

The sensitive nature and volume of pharmaceuticals require that procedures be in place to prevent the loss or misappropriation of these items. Lack of controls over pharmaceuticals may result in monetary loss, misappropriation, or injury due to misuse.

Criteria: State Administrative Manual (SAM), Section 10860, states that a physical inventory of materials and supplies be completed every three months.

Recommendation: Establish an inventory control system over pharmaceuticals and conduct a physical count of these items quarterly. Physical counts should be reconciled to the inventory system's balances on hand with adequate explanation of discrepancies.

FINDING 2 Unauthorized Storeroom Supplies Requisitions

Condition: Of 38 Storeroom Supply Orders reviewed, 26 (68 percent) lacked approvals by the requesting employee's supervisor. In addition, 6 of 20 items (30 percent) reported as issued in the State Logistics and Materials Management System were not supported by a Storeroom Supply Order. Without properly approved storeroom Supply Orders, the risk exists that supplies can be issued and misappropriated without detection.

Criteria: SAM, Section 10831, states that materials will be issued from the storeroom on approved requisitions only. After the requisitions filled during the month have been posted, the original copies will be filed.

Recommendation: Implement procedures that ensure all required signatures are obtained on the Storeroom Supply Order prior to issuing supplies from the warehouse.

Property

Effective internal control safeguards property, plant, and equipment from unauthorized acquisition, use, or disposition. The following internal control weaknesses over the Institution's property were identified.

FINDING 3 Inadequate Property Controls

Condition: Controls over property are inadequate and the Institution's property register is unreliable. The following weaknesses were identified in the property register and General Ledger Fixed Asset Account Group (GFAAG):

- Of 7 fixed asset disposals reviewed, 3 (43 percent) were not removed from the property register. Two property disposals for major assets were not removed from the GFAAG. Further review of changes in the fixed asset balance from July 2005 through December 2006 indicated that no major asset disposals were recorded in the GFAAG balance.

Improperly maintaining inventory records and accounting for property increases the risk that the financial statements may be materially misstated, property could be disposed of without proper authorization and review, and property could be misappropriated without detection.

Criteria: SAM, Section 8643, states that whenever property is lost, stolen, or destroyed, departments will prepare a Property Survey Report Form, adjust its property accounting records, and retain the Property Survey Report as documentation.

SAM, Section 8621, states that when property is disposed of, the asset will be removed from the accounting records.

Recommendation: All disposed fixed assets should be removed from the property register and the GFAAG.

FINDING 4 Physical Inventory Is Not Properly Documented

Condition: The completion of the 2004 physical inventory of fixed assets could not be verified because the Institution could not locate 7 of the 17 (41 percent) inventory certifications requested for review. If a complete inventory was not performed or reconciled to the accounting records, a risk exists that the financial statements could be materially misstated and that property could be misappropriated without detection.

This is a finding in our prior internal control review.

Criteria: SAM, Section 8652, states that worksheets used to take inventory must be retained for audit purposes, and must contain the inventory date and names of the persons conducting the inventory.

Recommendation: Properly prepare and maintain inventory certifications to document the completion of all physical inventories performed.

Disbursements

Effective internal control over disbursements is necessary to safeguard cash, ensure disbursements are properly authorized and posted to the accounting records, and to prevent and timely detect any errors or irregularities. The following internal control weakness over the Institution's disbursements was identified.

FINDING 5 Inadequate Separation of Duties

Condition: The Accounting Technician prepares checks, has access to blank check stock, inputs checks into the accounting system, and prepares bank reconciliations. Additionally, the supervisor has access to blank check stock and manually signs checks. This separation of duties weakness increases the risk that state funds could be stolen without detection.

This is a finding in our prior internal control review.

Criteria: SAM, Section 8080, states that no one person will perform more than one of the following types of duties:

- Authorizing disbursements
- Preparing checks
- Have access to or control blank check stock
- Sign checks manually after personally comparing them with authorizations and supporting documents
- Reconcile bank accounts and post to the General Ledger or any subsidiary ledger affected by cash transactions

Recommendation: Reassign incompatible duties to different individuals.

Inmate Trust Accounts

Effective internal control over the Inmate Trust Fund is necessary to ensure that inmate deposits and withdrawals are properly authorized and accurately recorded. In addition, effective internal control protects state assets and ensures that amounts due the state are remitted properly. The following internal control weaknesses over the Institution's Inmate Trust Fund were identified.

FINDING 6 Negative Inmate Trust Balances Are Not Monitored

Condition: The Institution had 71 inmate trust accounts with negative balances totaling \$3,060. No collection efforts for these accounts were documented and the account balances had not been submitted to the Victim Compensation and Government Claims Board (VCGCB) for reimbursement. Inadequate

collection and monitoring of overdrawn inmate trust accounts increases the risk that negative balances will result in a liability to the state, requiring reimbursement by the VCGCB.

This is a finding in our prior internal control review.

Criteria: The Inmate Trust Accounting Office Operations Guide, Section 4600, states that by January 1, Institutions will forward a list of overdrawn trust accounts to be submitted for reimbursement to the VCGCB. The list should include actions taken to collect funds owed, and should be used by the Accounting Office to prevent future overdrafts.

Recommendation: Provide training to staff to minimize data entry errors when processing inmate transactions and implement procedures for identification, collection, and write-off of overdrawn Inmate Trust accounts.

FINDING 7 Untimely Bank Reconciliations

Condition: Bank Reconciliations for the Inmate Trust Account for September, October, and November 2006 had not been prepared as of January 2007. In addition, the bank reconciliation for August 2006 had 459 outstanding checks that were over a year old and stop payment orders were not issued.

This finding was reported in an October 26, 2006 internal audit conducted by the Corrections Business Audit Unit. The Institution submitted a Corrective Action Plan for that audit on November 27, 2006, which stated that bank reconciliations would be current by January 31, 2007.

Failure to complete timely reconciliations increases the risk that errors and misstatements will not be detected in the accounting records. Failure to issue stop payment orders on stale dated checks increases the risk that the stale checks could be cashed after the negotiability period for state warrants has passed.

Criteria: SAM, Section 7901, requires that all reconciliations be completed within 30 days of the preceding month.

SAM, Section 8045, states that checks have a one-year period of negotiability. Agencies shall send a stop payment request to the State Treasurer's Office for all uncashed checks timed to arrive at least one week prior to the stale date.

Recommendation: Ensure bank reconciliations are completed within 30 days of the preceding month and establish procedures to prepare stop payment requests timely.

Revolving Fund

Effective internal control over the revolving fund is necessary to safeguard cash, and to prevent and detect errors or irregularities. The following internal control weakness over the Institution's revolving fund was identified.

FINDING 8**Petty Cash Fund Accountability**

Condition:	<p>A physical count of a \$200 petty cash fund indicates that the fund was \$93 short with no receipts to account for the use of the \$93. Also, the accounting records did not reflect the change in custodianship for the fund and no evidence was provided to document whether an audit of petty cash was performed after the transfer of custodianship. Without this audit, accountability for the identified shortfall cannot be assigned. Not controlling the petty cash fund increases the risk that funds could be misappropriated by persons with access to the funds.</p>
Criteria:	<p>SAM, Section 8111.2, states that the petty cash fund custodian is personally responsible for advances. Transfers will be made only after: (1) a personal audit of the fund has been made by the employees directly concerned, and (2) a receipt has been given by the newly assigned custodian by the prior custodian. A copy of the receipt signed by both parties will be delivered to the Accounting Officer.</p> <p>SAM, Section 8112.5, states that the custodian will present invoices at least once each month so that the fund can be replenished.</p>
Recommendation:	<p>Implement procedures to ensure that all cash in the fund is accounted for with either the cash or a receipt. Additionally, conduct personal audits and prepare transfer receipts prior to custodial changes.</p>

INSTITUTION RESPONSE

DIVISION OF ADULT INSTITUTIONS
PLEASANT VALLEY STATE PRISON
P.O. Box 8500
Coalinga, CA 93210



October 26, 2007

Diana L. Ducay, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capital Mall, Suite 801
Sacramento, CA 95814

Dear Ms. Ducay:

DRAFT REPORT: PLEASANT VALLEY STATE PRISON – INTERNAL CONTROL REVIEW

We are in receipt of your draft report, internal control review for Pleasant Valley State Prison (PVSP), completed in February 2007. In this report, you cite several findings with recommendations for change. Enclosed is our response to each finding and information on any changes implemented.

Thank you for the opportunity to respond to these areas in need of corrective action. If you have any questions or concerns, please contact Cheryl McDonell, Business Manager II, at (559) 935-7049.

J. M. Mattingly

J. M. MATTINGLY
Warden (A)
Pleasant Valley State Prison

Enclosures

cc: Chief Deputy Warden, PVSP
Health Care Manager, PVSP
Associate Warden, Business Services, PVSP
Business Manager II, PVSP

FINDING 1 Lack of Pharmaceutical Inventory System

Pleasant Valley State Prison's (PVSP) Pharmacy is under a new statewide contract to Amerisource Bergen to provide pharmacy services. A copy of these findings have been provided to Dr. William Alvarez, Health Care Manager, to share with the contractor regarding audit expectations.

FINDING 2 Unauthorized Storeroom Supplies Requisitions

PVSP's Warehouse reviews all requests for items (115 Storeroom Requisitions) to ensure all approvals (signatures) are included before distribution. The Materials and Stores Supervisor II within the Warehouse is responsible for this task. PVSP has hired a new Procurement and Services Officer II (PSO II) who will do spot, surprise audits to ensure compliance.

FINDING 3 Inadequate Property Controls

PVSP has completed a tri-annual property inventory as required by the State Administrative Manual. This inventory requires all paperwork be updated. As such, fixed property assets were removed from the Property register. In addition, property disposals for major assets were removed from the General Ledger Fixed Asset Account Group.

FINDING 4 Physical Inventory Is Not Properly Documented

As noted above, PVSP has completed a tri-annual property inventory. Each work area has certified that a physical inventory was completed, and the appropriate paperwork is now stored with the Property Controller. In addition, the PSO II has developed a schedule to complete a biannual physical inventory of all areas at PVSP.

FINDING 5 Inadequate Separation of Duties

Since the time of the audit, PVSP has modified the Accounting Technician's responsibilities. A second Accounting Technician has been hired. Now an Account Clerk II prepares the checks. One Accounting Technician inputs checks into the accounting system, and the other Accounting Technician prepares the bank reconciliation.

The supervisor no longer has access to the blank check stock. Her key has now been moved to a locked key box within the Business Services Office to which she does not have access.

FINDING 6 Negative Inmate Trust Balances Are Not Monitored

This continues to be an ongoing problem. Staff have received documented training to minimize data entry errors, made changes to the data entry processes, and now include information on why an account is 'negative'. Annually the local Trust Office submits a list of negative accounts to California Department of Corrections and Rehabilitation (CDCR) Headquarters, the most recent having been submitted in January 2007. We have yet to receive a response regarding these accounts. PVSP will continue to contact CDCR Headquarters to find out the current status of these accounts.

FINDING 7 Untimely Bank Reconciliations

At the time of the audit, PVSP had been short of Accounting staff and was behind in its reconciliations. PVSP, on a local level, is now reconciling its bank accounts within the 30-day required period. In addition, bank reconciliations are submitted to CDCR Headquarters for additional review and approval. Regarding the outstanding checks that were over one year old, stop payment orders have been submitted. PVSP has established procedures to ensure stop payment orders are prepared in a timely manner and is current on any checks that need stop payments.

FINDING 8

Petty Cash Fund Accountability

PVSP recognizes that documentation of receipts being sent to the Regional Accounting Office (RAO) for reimbursement was non-existent. Since the audit, PVSP has located the missing receipts and submitted them to the RAO for reimbursement.

PVSP now prepares transfer receipts prior to custodial changes.

Copies of any receipts now sent to the RAO for reimbursement are kept in a file/binder to verify submission and to assist in tracking reimbursements.

PVSP has implemented bi-weekly, surprise cash audits to ensure accountability. Copies of the report findings are sent to the Business Manager II as each audit is completed.